(RESEARCH ARTICLE)

The effects of financial management practices to the growth of small and medium enterprises in Zambales, Philippines

Dennis Biober Alferos *

College of Accountancy and Business Administration, President Ramon Magsaysay State University, Philippines.

Abstract

This study is to determine the effect of financial management practices to the growth of SMEs. The respondents are 50 SMEs and selected through convenience random sampling. Survey questionnaire was used in data gathering. The findings show that majority of the respondents were females with mean age of 36.9 years old, bachelor degree holder with mean years in business of 8.78 years. The respondents are highly practicing the working capital management practices but they moderately practicing the capital structure and investment decision practices. The respondents strongly agree on the growth of SMEs' sales volume but only agree on the growth of profit and expansion. There is a significant difference on the working capital management practices according to the respondent's highest educational attainment, capital structure practices according to the type of business, and investment decision practices according to the highest educational attainment and nature of business. Therefore, it is highly recommended that, SMEs may continually practice the management of their working capital. SMEs should outweigh the cost-benefit relationship in structuring their capital sources. SMEs should strengthen the practice of their investment decisions through capital budgeting and fund allocation into long-term assets. SMEs may do expansion through new products/services offering and to cover wide range of customers. Lastly, SMEs should practice continually the financial management to attain business' success.

Keywords: Financial; Management; SMEs; Practices; Growth

1. Introduction

Financial management practices involve making financial decisions for both long-term and short-term goals to ensure that the return on capital exceeds the cost without assuming an excessive amount of financial risk (Abey, 2021). These practices are likely to have a marked effect on the financial performance of an enterprise. Therefore, sound financial decisions and practices can contribute towards meeting the desired objective of having profitable operations (Jain et al., 2013).

Small, and medium enterprises (SMEs) are one of the primary driving forces for economic growth and job creation. They play an important role in developing the country's economy and reducing poverty by creating jobs for the growing labor force. Ibarra (2012) viewed that SMEs are not only helpful in wealth creation but also in dispersing new industries to rural areas that contributes to a more equitable distribution of income, encouraging entrepreneurial development, stimulating gainful employment, supporting export growth, and acting as a powerful force in anti-poverty efforts.

The Philippine government has embarked upon a comprehensive and integrated strategy for the sustainable growth and development of SMEs in the country. The Government of the Philippines enacted into law the Magna Carta of Small Enterprises (Republic Act 6977) which outlines the general policies for the development of SMEs.

---

* Corresponding author: Dennis B Alferos

Despite the existing studies about small and medium enterprises, there is a need to focus on financial management practices. To gain insight regarding the effect of financial management practices to the growth of SMEs, there is the need to conduct this type of study with regards to financial management practices such as working capital management, capital structure, and investment decision and their relationship to the growth of SMEs in terms of sales volume, profitability, and expansions.

In these regards, the researcher would like to determine the effect of financial management practices on growth of small and medium enterprises in Zambales, Philippines.

The purpose of this study is to determine the effect of financial management practices on the growth of SMEs in Zambales, Philippines. Specifically, this study answers the following research questions:

- What is the demographic profile of the respondents in terms of;
  - Sex;
  - Age;
  - Highest Educational Attainment;
  - Types of Business;
  - Number of years in Business; and
  - Nature of the Business?
- What are the financial management practices that are being practiced by the SMEs in Iba, Zambales in terms of;
  - Working Capital Management;
  - Capital Structure; and
  - Investment Decision?
- Is there a significant difference on the financial management practices that are being practiced by the SMEs in Iba, Zambales when grouped according to profile variables?

2. Material and methods

This study utilized a descriptive research design that seeks to explain, discuss, and analyze the effect of financial management practices on the growth of SMEs in Iba, Zambales. The general procedure of describing serves the primary purpose of identifying the significance of financial management practices for the growth of SMEs.

The sample population, comprised of 50 SMEs in the municipality of Iba, Zambales, was chosen through convenience random sampling. The data for this study was gathered from the managers or owners of the SMEs who are knowledgeable in the operation of the business. The respondents were chosen based on their characteristics and capability to become part of the sample.

The researcher-made survey questionnaires served as the major instrument used to gather the data for the study. It was used to easily code the responses, and it is also ideal for quantitative research designs. The survey questionnaire was divided into three parts. The first section collected the demographic profile of the business. The second section of the questionnaire used a modified Likert Scale on a four-point scale to learn the financial management practices that are being practiced by the SMEs in Iba, Zambales.

3. Results

3.1. Profile of the Respondents

Table 1 shows the frequency and percentage distribution of the respondents according to their profile variables.

Table 1 Frequency and percentage distribution of the respondents according to their profile variables

Profile Variables		Frequency (*f*)	Percentage (%)
Sex	Male	21	42.00
	Female	29	58.00
	Total	50	100.00

Age	19-29 years old	20	40.00
	30-39 years old	12	24.00
Mean = 36.9 years old	40-49 years old	8	16.00
	50-59 years old	5	10.00
	60 years old and above	5	10.00
	Total	50	100.00
Highest Educational Attainment	Secondary education	8	16.00
	Certificate/vocational	10	20.00
	Bachelor's degree	31	62.00
	Master's degree	1	2.00
	Total	50	100.00
Type of business	Restaurants	7	14.00
	Clothing	6	12.00
	Pharmacy	2	4.00
	Others	13	26.00
	Lodging/Hotel/Resort	5	10.00
	Hardware/Trading	7	14.00
	Retail stores	10	20.00
	Total	50	100.00
Profile Variables		Frequency (f)	Percentage ($\%$)
Number of Years in business	1-3 years	12	24.00
	4-6 years	10	20.00
	7-9 years	6	12.00
Mean = 8.78 years	10-12 years	8	16.00
	13-15 years	3	6.00
	16 years and above	11	22.00
	Total	50	100.00
Nature of business	Small enterprises	41	82.00
	Medium enterprises	9	18.00
	Total	50	100.00

3.1.1. Sex

The majority of the respondents are females with 29 or 58% compared to males with 21 or 42%. This shows that the small enterprises owners are females who are practicing the financial management practice to achieve the financial goals and objectives of their business (Ali et al., 2019).

3.1.2. Age

The mean age of the respondents is 36.9 years old and majority of them belong to the age grouped of 19-29 years old, while the least are in the age grouped of 50-59 and 60 years old above with 5 or 10%.

3.1.3. Highest Educational Attainment

The majority of the respondents are bachelor's degree holder with 31 or 62%, while the least are master's degree holder with 1 or 2%. This shows that the knowledge gained in obtaining a bachelor's degree is an important component in managing a business, whether small or big.

3.1.4. Type of business

The majority of the respondents are operating other business not in the identified types with 13 or 26%, while the least are in pharmacy type of business with 2 or 4%.

3.1.5. Number of Years in business

The mean years in business of the respondents is 8.78 years and majority of them are in business for 1-3 years, while the least are in business for 13-5 years with 3 or 6%.

3.1.6. Nature of business

The majority of the respondents are operating a small enterprise with 41 or 82%, compared to those who are operating a medium enterprise with 9 or 18%. This indicates that they are managing a small business by the owners with a small market, which have some characteristics of having an independent management, small investors, and operating locally (Aboe, et. al., 2010).

3.2. Financial Management Practices of SMEs

3.2.1. Working Capital Management

Table 2 shows the financial management practices of the respondents in terms of working capital management.

Table 2 Financial Management Practices of SMEs in terms of Working Capital Management

Statements	Weighted Mean	Descriptive Interpretation	Rank
The business maintains inventory records which are updated regularly.	3.50	Highly Practiced	4.5
The business keeps proper records for all payable.	3.78	Highly Practiced	1.5
The business keeps proper records for all receivables.	3.50	Highly Practiced	4.5
The business ensures that there is sufficient flow of cash to meet daily needs.	3.78	Highly Practiced	1.5
The business regularly checks the number of inventories.	3.70	Highly Practiced	3
Overall Weighted Mean	3.65	Highly Practiced	

The respondents highly practiced the working capital management with an overall weighted mean of 3.65. Similarly, they highly practiced the keeping or proper records for all payables and ensures that there is sufficient flow of cash to meet daily needs with the highest means of 3.78 and ranked 1st respectively. The respondents also highly practiced to maintain inventory records which are updated regularly and keeps proper records for all receivables with the lowest means of 3.50 and ranked 5th respectively.

The results show that the respondents are highly practicing the recording of cash, inventories, and receivables and ensuring that there is sufficient flow of cash to meet their day-to-day operations. According to the study of Dato-on et al (2014), the proper management of working capital promotes stability, liquidity, and profitability of business; otherwise, the impulsive practices of this leads to wither an excessive quantity of working capital that reduces profitability or low level of working capital that interferes the daily needs.

3.2.2. Capital Structure

Table 3 shows the financial management practices of the respondents in terms of capital structure.

The respondents moderately practiced the capital structure with an overall weighted mean of 2.80. However, they highly practiced the use of equity capital to finance its overall operations with the highest mean of 3.30 and ranked 1st,

but, they poorly practiced the use of capital/money that derives from loans to finance its overall operations with the lowest mean of 2.32 and ranked 5th.

Based on the results, it shows that the owners are practicing moderately the combination of long-term debt and equity in their capital structuring. The appropriate capital structure should be chosen by business owners since it is closely related to the value of the firm, raising the funds necessary to establish and develop their business operations (Fisseha, 2010); wherein the cost of equity or debt and the cost of capital are affected (Chin et al., 2021).

Table 3 Financial Management Practices of SMEs in terms of Capital Structure

Statements	Weighted Mean	Descriptive Interpretation	Rank
The business uses capital/money that derives from loans to finance its overall operations.	2.32	Poorly Practiced	5
The business uses equity capital to finance its overall operations.	3.30	Highly Practiced	1
The business uses borrowed capital to finance its assets.	2.40	Poorly Practiced	4
The business is able to raise equity easily.	3.26	Highly Practiced	2
The business is able to raise the debt capital easily.	2.72	Moderately Practiced	3
Overall Weighted Mean	2.80	Moderately Practiced	

3.2.3. Investment Decision

Table 4 shows the financial management practices of the respondents in terms of investment decision.

The respondents moderately practiced the investment decision with an overall weighted mean of 2.88. On the other hand, they highly practiced to invests in equipment for the use of the business with the highest mean of 3.40 and ranked 1st, but, they poorly practiced the seeking of financial help from outside the business with the lowest mean of 2.42 and ranked 5th, respectively.

Table 4 Financial Management Practices of SMEs in terms of Investment Decision

Statements	Weighted Mean	Descriptive Interpretation	Rank
The business is able to seek financial help from outside the business.	2.42	Poorly Practiced	5
The business invests in equipment for the use of the business.	3.40	Highly Practiced	1
The business has a cash for investment in long-term projects.	3.38	Highly Practiced	2
The business have acquired land or building for the expansion of the business.	2.52	Moderately Practiced	4
The business obtains finances for funding purchase of property, plant, and equipment (building, land, furniture, equipment, etc).	2.68	Moderately Practiced	3
Overall Weighted Mean	2.88	Moderately Practiced	

The respondents are practicing in investing to equipment and long-term projects, and according to (Virlics, 2013) business should conduct an economic analysis for investment decisions in opting projects that are more appropriate and have a prominent effect on the investor's welfare as the development of the enterprise.

Table 5 Summary Table on the Financial Management Practices of SMEs

Factors	Weighted Mean	Descriptive Interpretation	Rank
Working capital management	3.65	Highly Practiced	1
Capital structure	2.80	Moderately Practiced	3
Investment decision	2.88	Moderately Practiced	2

Table 5 shows the summary of the results on the financial management practices of small and medium enterprises in terms of working capital management (x̄=3.65), capital structure (x̄=2.80), and investment decision (x̄=2.88).Adopting a sound financial management gives an entity an advantage as it increases its profitability and ability to survive in a changing environment. According to Peralta (2021), it also enables SMEs to maintain effective control over their working capital, including its cash flows, inventories, accounts receivables, and payables, as well as, produce accurate and up-to-date financial records.

3.3. Test of Difference on the Financial Management when grouped according to Demographic Profile Variables

3.3.1. Work Capital Management

Table 6 shows the Analysis of Variance to test the significant difference on the financial management practices of SMEs in terms of working capital management when grouped according to the respondents' profile variables.

Table 6 Test of Difference on the Financial Management Practices in terms of Working Capital Management according to Demographic Profile Variables

Sources of Variations		SS	df	MS	F	Sig.	Decision
Sex	Between Groups	0.020	1	0.020	0.079	0.780	Accept Ho Not Significant
	Within Groups	12.125	48	0.253			
	Total	12.145	49				
Age	Between Groups	1.158	4	0.290	1.186	0.330	Accept Ho Not Significant
	Within Groups	10.987	45	0.244			
	Total	12.145	49				
Highest Educational Attainment	Between Groups	2.726	3	0.909	4.438	0.008	Reject Ho Significant
	Within Groups	9.419	46	0.205			
	Total	12.145	49				
Type of business	Between Groups	1.639	6	0.273	1.118	0.368	Accept Ho Not Significant
	Within Groups	10.506	43	0.244			
	Total	12.145	49				
Number of Years in business	Between Groups	0.889	5	0.178	0.695	0.630	Accept Ho Not Significant
	Within Groups	11.255	44	0.256			
	Total	12.145	49				
Nature of business	Between Groups	0.001	1	0.001	0.002	0.961	Accept Ho Not Significant
	Within Groups	10	48	0.253			
	Total	12.145	49				

The computed value of p=0.008 for highest educational attainment profile variable is less than < the 0.05 Alpha Level of significance, therefore, the null hypothesis is rejected, hence there is a significant difference on the working capital management practices according to the respondent's highest educational attainment profile variable.

On the other hand, the computed value of p=0.780 for sex, p=0.330 for age, p=0.368 for type of business, p=0.630 for number of years in business, and p=0.961 for nature of business profile variables are greater than > the 0.05 Alpha Level of significance, therefore, the null hypothesis was accepted, hence there is no significant difference on the working capital management practices according to their profile variables, except their highest educational attainment. The significant difference on the working capital management practices indicates that this practice varies based on the respondent's highest educational attainment, that is, the knowledge obtained of the owners in the academe helps them in practicing the management of their working capital in meeting their daily business' needs. According to the study of Wambugu (2013), SME's owners should have skills and knowledge in working capital management and also need to continuously participate in training program and advance education.

3.3.2. Work Capital Structure

Table 7 shows the Analysis of Variance to test the significant difference on the financial management practices of SMEs in terms of capital structure when grouped according to the respondents' profile variables.

Table 7 Test of Difference on the Financial Management Practices in terms of Structure according to Demographic Profile Variables

Sources of Variations		SS	df	MS	F	Sig.	Decision
Sex	*Between Groups*	.266	1	0.266	0.590	0.446	Accept Ho Not Significant
	Within Groups	21.654	48	0.451			
	Total	21.920	49				
Age	*Between Groups*	1.359	4	0.340	0.744	0.567	Accept Ho Not Significant
	Within Groups	20.561	45	0.457			
	Total	21.920	49				
Highest Educational Attainment	*Between Groups*	2.541	3	0.847	2.011	0.126	Accept Ho Not Significant
	Within Groups	19.379	46	0.421			
	Total	21.920	49				
Type of business	*Between Groups*	5.782	6	0.964	2.567	0.033	Reject Ho Significant
	Within Groups	16.138	43	0.375			
	Total	21.920	49				
Number of Years in business	*Between Groups*	3.523	5	0.705	1.685	0.158	Accept Ho Not Significant
	Within Groups	18.397	44	0.418			
	Total	21.920	49				
Nature of business	*Between Groups*	0.439	1	0.439	0.981	0.327	Accept Ho Not Significant
	Within Groups	21.481	48	0.448			
	Total	21.920	49				

The computed value of p=0.033 for type of business profile variable is less than < the 0.05 Alpha Level of significance, therefore, the null hypothesis is rejected, hence there is a significant difference on the capital structure practices according to the respondent's types of business profile variable.

On the other hand, the computed value of p=0.446 for sex, p=0.567 for age, p=0.126 for highest educational attainment, p=0.158 for number of years in business, and p=0.327 for nature of business profile variables are greater than > the

0.05 Alpha Level of significance, therefore, the null hypothesis was accepted, hence there is no significant difference on the capital structure practices according to their profile variables, except their type of business. The significant difference on capital structure practices shows that this practice varies based on the type of business of the respondents, wherein it needs more capital to raise for the business operation. According to Aljamaan (2018) the capital structure of the business is comprised of both long term debt and equity issuance, and choosing the appropriate capital source is related to the value of the firm as to what it is type.

3.3.3. Work Capital Structure

Table 8 shows the Analysis of Variance to test the significant difference on the financial management practices of SMEs in terms of Investment Decision when grouped according to the respondents' profile variables.

Table 8 Test of Difference on the Financial Management Practices in terms of Investment Decision according to Demographic Profile Variables

Sources of Variations		SS	df	MS	F	Sig.	Decision
Sex	Between Groups	0.064	1	0.064	0.167	0.684	Accept Ho Not Significant
	Within Groups	18.256	48	0.380			
	Total	18.320	49				
Age	Between Groups	1.915	4	0.479	1.313	0.279	Accept Ho Not Significant
	Within Groups	16.405	45	0.365			
	Total	18.320	49				
Highest Educational Attainment	Between Groups	3.582	3	1.194	3.726	0.018	Reject Ho Significant
	Within Groups	14.738	46	0.320			
	Total	18.320	49				
Type of business	Between Groups	1.473	6	0.246	0.627	0.708	Accept Ho Not Significant
	Within Groups	16.847	43	0.392			
	Total	18.320	49				
Number of Years in business	Between Groups	1.424	5	0.285	0.742	0.596	Accept Ho Not Significant
	Within Groups	16.896	44	0.384			
	Total	18.320	49				
Nature of business	Between Groups	2.082	1	2.082	6.155	0.017	Reject Ho Significant
	Within Groups	16.238	48	0.338			
	Total	18.320	49				

The computed value of p=0.018 for highest educational attainment and p=0.017 for nature of business profile variables are less than < the 0.05 Alpha Level of significance, therefore, the null hypothesis is rejected, hence there is a significant difference on the investment decision practices according to the respondent's highest educational attainment and nature of business profile variables.

On the other hand, the computed value of p=0.684 for sex, p=0.279 for age, p=0.708 for type of business, and p=0.596 for number of years in business profile variables are greater than > the 0.05 Alpha Level of significance, therefore, the null hypothesis was accepted, hence there is no significant difference on the investment decision practices according to their profile variables, except their highest educational attainment and nature of business. The significant difference on investment decision practices indicates that this practice varies depending on the respondent's highest educational attainment and nature of business as to small or medium enterprises.

Conclusion

The researchers concluded based on the summary of findings that:

- The majority of the respondents are females with mean age of 36.9 years old and majority of them belonged to the age group of 19-29 years old, bachelor degree holder with mean years in business of 8.78 years and majority of them are operating a small enterprises business for 1-3 years.
- The respondents are highly practicing the working capital management practices but they moderately practicing the capital structure and investment decision practices.
- The respondents strongly agree on the growth of SMEs' sales volume but only agree on the growth of profit and expansion.
- There is a significant difference on the working capital management practices according to the respondent's highest educational attainment, capital structure practices according to the type of business, and investment decision practices according to the highest educational attainment and nature of business.
- There is a significant difference on the level of growth of SMEs' profit according to the respondent's sex and highest educational attainment.
- There is a significant relationship between the working capital management practices and growth of profit of SMEs, between the capital structure practices and growth of sales volume, and between the investment decision practices and the level of growth of SMEs.

Recommendations

Based on the summary of findings and conclusions, the researchers have considered the following recommendations:

- SMEs may continually practice the management of their working capital to ensure that they operate efficiently by monitoring and using its current assets and liabilities to their most effective use.
- SMEs should outweigh the cost-benefit relationship in structuring their capital sources, between availing long term debt and equity, because long term debt includes the burden of interest payments but debt also allows a company or business to retain ownership, unlike equity.
- SMEs may strengthen the practice of their investment decisions through capital budgeting and fund allocation into long-term assets, though, managers overseeing business operations opt for short-term investments to ensure liquidity and working capital.
- SMEs may maximize their inventory to attain increase in sales volume, that is, proper forecasting of inventory to avoid additional cost, thereby increasing the profit in the long run.
- SMEs may do expansion through new products/services offering and internet expansion to cover wide range of customers, which is lesser cost than opening branches in other locations
- SMEs should practice continually, in general, the financial management to attain business' success.
- Furthermore, follow-up study should be conducted to validate the current findings

Compliance with ethical standards

Disclosure of conflict of interest

The author declares no conflict of interest.

Statement of informed consent

The researcher was able to acquire an informed consent form attached in the survey questionnaire. These was distributed to the respondents in order to get their assurance and consent that they will be willing to participate in the study. The researcher was clarified the study's goals and purpose to give the respondents total understanding of the consequences of their involvement. Informed Consent form was utilized for the purpose of obtaining the consent of the

respondents and to help them become aware of their voluntary participation in this study before providing their insight to the survey questionnaire and interview. The respondents was given the right to refuse to answer certain questions and withdraw the consent form to ensure that the respondents was comfortable in participating in the study.

References

[1] Abey, J., Rabbani, M. R., Velmurugan, R., Moh'd Ali, M. A., & Bashar, A. (2021, December). Financial decision making and Foreign Direct Investment in the era of COVID-19 and beyond: Evidence from India. In 2021 International Conference on Decision Aid Sciences and Application (DASA) (pp. 38-44). IEEE.Aboe, J., & Quartey, P. (2010). Issues in SME Development in Ghana and South Africa. International Research Journal of Finance and Economics, 39.

[2] Ali, A. Y. S., & Isak, A. O. (2019). Financial management practices and financial performance of service companies in Somalia. Financial Management, 10(4).Aljamaan, B. E. (2018). Capital Structure: definitions, Determinants Theories and link with performance literature review. European Journal of Accounting, Auditing and Finance Research, 6(2), 49–72.

[3] Chin, K. Y., Zakaria, Z., & Keong, C. C. (2021). How Firm Characteristic on Capital Structure Can Improve Technology Improvement in Malaysian Manufacturing SMEs? International Conference on Management, Social Sciences & Humanities, 124. https://doi.org/10.1051/shsconf/202112404003

[4] Dato-on, D. E., Monto, R. P., Calaylay, N. M., Villanueva, G. B., Velez, J. F., & Temanel, E. O. (2014). Working Capital Management of Small and Medium Enterprises in Cebu. University of the Visayas-journal of research, 8(1), 173-190. https://doi.org/10.5281/zenodo.196663

[5] Fisseha, K. M. (2010). The determinants of capital structure: Evidence from commercial banks in Ethiopia.

[6] Ibarra, V. C. (2012). Bad Debts Practice of Selected Small and Medium Enterprise in the Philippines. Integrated Business and Economic Research, 1(1).

[7] Jain, P. K., Singh, S., & Yadav, S. S. (2013). Financial management practices. An empirical study of Indian corporates, 3, 265-278.

[8] Peralta, E. A. (2021). Financial Management Practices and Financial Performance of the Selected Micro, Small, and Medium Sized Enterprises (MSMEs). Ascendens Asia Journal of Multidisciplinary Research Conference Proceedings.

[9] Virlics, A. (2013). Investment Decision Making and Risk. Procedia Economics and Finance, 6(1), 169–177. https://doi.org/10.1016/S2212-5671(13)00129-9

[10] Wambugu, P. M. (2013). Effects of working Capital Management Practices on Profitability of Small and Medium Enterprises in Nairobi County, Kenya.